

Summary of Business Rules for Accounting for and Reporting of Military Equipment

Reporting Entity

Objective

- Provide guidance on the reporting of military equipment by a user entity in instances where the equipment was acquired by a non-user entity in a manner consistent with the provisions of Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting*, and Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Baseline Valuation Methodology

- DoD entities that possess and control (have preponderant use of) military equipment items that materially contribute to mission accomplishment should report such items in their financial statements, regardless of the organization that originally acquired or provided the funding for the items.

Mid-Term Valuation Methodology

- Same as Baseline

Military Equipment Valuation Project

Position Paper: Reporting Entity

Description of Issue

DoD Components purchase certain items of property, plant, and equipment (PP&E) with their own funds and then transfer custody to other DoD organizations to facilitate mission performance. For example, the first organization purchases certain items of military equipment with its own funds and transfers custody of the items to a second organization. Subsequently, the receiving organization makes substantial modifications to the items of military equipment to make them suitable for its mission. The receiving organization controls the military equipment items and has the authority for the use and deployment of the items. The issue is whether the organization that originally paid for the PP&E or the organization that controls and uses the PP&E should report the PP&E.

Statement of Federal Financial Accounting Concepts No.2, *Entity and Display*, provides that a reporting entity for financial reporting purposes must have all of the following characteristics:

- Management that is held accountable for the entity's performance and is responsible for controlling and deploying resources, producing outputs and outcomes, and executing a budget;
- Scope of activities such that its financial statements provide a meaningful representation of operations and financial condition;
- There are likely to be users of financial statements who rely upon the statements to provide them with information necessary to make resource allocation and other decisions and who hold the entity's management accountable for its deployment and use of resources.

Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, Paragraph 74, provides that an intragovernmental transfer of cash or other capitalized asset without reimbursement changes the resources available to both the receiving and transferring entities. The receiving entity should recognize a transfer-in as an additional financing source in its result of operations for the period. The

transferring entity should recognize the transfer-out as a decrease in its result of operations. The value recorded should be the transferring entity's book value of the asset. If the receiving entity does not know the book value, the asset should be recorded at its estimated fair value as of the date of the transfer.

The DoD Financial Management Regulation states that for asset reporting purposes, the following characteristics are essential:

- The asset has the capacity to contribute to mission accomplishment;
- The entity can use the asset or control access of others to the asset;
- The transaction or event giving rise to the entity's right to, or financial control over, the asset has already occurred.

Proposed Policy

DoD entities that possess and control (have preponderant use of) PP&E items that materially contribute to their mission accomplishment should report such PP&E in their financial statements¹, regardless of the organization that originally acquired the items or provided the funding for the PP&E. The receiving entity should recognize a transfer-in as an additional financing source in its result of operations for the period. The transferring entity should recognize the transfer-out as a decrease in its result of operations. The value recorded should be the transferring entity's book value of the asset. If the receiving entity does not know the book value, the asset should be recorded at its estimated fair value as of the date of the transfer.

Authoritative Guidance

Statement of Federal Financial Accounting Concepts No.2, *Entity and Display*

Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*

¹ This recommendation only applies to entities that prepare financial statements in accordance with generally accepted accounting principles.